

***Tax Expenditure Budgeting:
Update on TRD Progress***

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Summary of Presentation

- Overview of TRD's Tax Expenditure Work Plan
- Outline of Report on Conceptual Framework
- Defining the Benchmark GRT Base

Overview of TRD's Tax Expenditure Work Plan

- TRD is undertaking a multi-year, comprehensive review and analysis of tax expenditures.
- This year, we plan to complete a report that describes in depth the conceptual framework of tax expenditures.
- The next series of tax expenditure reports will define and measure tax expenditures for a number of specific taxes.
 - One report in this series is already completed. It covers the definition of the benchmark gross receipts tax base, and is discussed below.
- The final series of reports will provide analyses of the effectiveness of specific tax expenditures.
- This multi-year schedule is designed to allow TRD to provide a comprehensive framework for evaluating tax expenditures, as well as in-depth evaluations.
- We believe this approach will provide a far more useful set of reports for policy makers than a set of annual tax expenditure “budgets” that merely list and provide cost estimates for some set of tax expenditures.
 - However, as Secretary Homans noted in his presentation TRD is committed to providing additional, timely information on the use of various credits and other tax incentives on a regular basis.

Outline of Report on Conceptual Framework

- The following is a tentative outline for TRD's report that will provide a conceptual framework for defining, measuring, and evaluating tax expenditures.
- Thomas Pogue, Professor of Economics Emeritus at the University of Iowa, will work under contract to TRD on this report.

Outline

I. Definition of Tax Expenditure

- A. "Normal" or "Ideal" tax law
 - a. Deductions and exemptions needed to define the "normal" tax base
- B. Deviations from "Normal" or "Ideal" tax law

II. Uses of Tax Expenditures

- A. To evaluate government programs administered through taxes
- B. Tax reform and tax expenditures

III. Tax Expenditure Analysis in the Federal and State Governments

IV. Measurement of Tax Expenditures

- A. Measurement conventions
- B. Differences from revenue estimates in fiscal impact reports

V. Analysis of Tax Expenditures

- A. Purposes of tax expenditure provisions
- B. Relationship of tax expenditures and other government programs
- C. Criteria for determining the appropriate form of program
- D. Criteria for measuring the effectiveness of tax expenditures
- E. Data and analytical methods required for the analysis

VI. Illustration: Measuring Tax Expenditure Credits

- A. Income tax credits
- B. Other credits

Defining the Benchmark GRT Base

- This report is the first in a series of tax expenditure reports that will define and measure tax expenditures for a number of specific taxes.
- The report, “Tax Expenditure Budget: Defining the Benchmark GRT Base,” was prepared under contract with TRD by Thomas Pogue, Professor of Economics Emeritus at the University of Iowa.
- The major topics covered by the report are as follows:

I. Principles of Taxation

II. Benchmark GRT Base Defined as Value of Consumption by NM Residents

- A. What is consumption?
- B. What is included in the benchmark consumption base
- C. Summary: Benchmark consumption base

III. Benchmark GRT Base Defined as Value of Production within NM Borders

- A. Why tax production?
- B. Implementing a production tax
- C. Summary: Benchmark production base

IV. A Mixed Consumption/Production Base

V. How the Current GRT Base Differs from the Benchmark Bases

- A. A consumption base benchmark
- B. Production base benchmark
- C. Adjusting other taxes

VI. Summary

- This report provides the basic definitions of alternative “benchmark” gross receipts tax bases that are required to measure tax expenditures in the largest revenue-generating tax for New Mexico’s State and local governments.
 - Importantly, the report identifies negative tax expenditures (tax disincentives) in the current gross receipts tax, which arise primarily from tax business-to-business sales (pyramiding).
- I would be happy to provide copies of this report to members of the Committee.